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**STATE OF MICHIGAN**



JOHN ENGLER, Governor  
**DEPARTMENT OF TREASURY**  
MARK A. MURRAY, State Treasurer

**STUDENT FINANCIAL AID**

**TO:** Participating Schools and Lenders

**FROM:** Patricia W. Scott, Director

**DATE:** February 21, 2001

**SUBJECT:** Educational Loan Notes

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**MGA VAULTS TO TENTH IN RECOVERY RATE**

Less than one year after initiating new collection efforts, the Michigan Guaranty Agency (MGA) rose from 27th to 10th as compared to the other 35 guaranty agencies. MGA recovered almost 24 percent of its defaulted loan inventory according to the U.S. Department of Education's (ED) recently released Fiscal Year (FY) 2000 Guaranty Agency Recovery Rates. Compared to FY 1999's rate of 12.62 percent, MGA's recovery rate almost doubled. Recovery rates are a percentage of the dollar amount collected over a fiscal year divided by the beginning inventory or total dollar amount of defaulted loans.

Collecting on defaulted student loans is a win-win scenario for all parties.

- Borrowers with defaulted student loans can have the loans rehabilitated, which allows them to clean up their credit rating with the credit bureaus.
- Schools and lenders benefit because MGA retains a percentage of collections for operating expenses, which allows us to continue current services and initiate additional services.

MGA's success is based on the efforts of staff in our Collections Unit who work accounts for the first 120 days following purchase of the default, and the assignment of accounts to the Michigan Department of Treasury (Treasury) and outside collection agencies (OCAs). If the borrower makes a payment within the first 120 days following purchase of the default and continues to make payments, the account will remain with MGA. If there is a gap of more than 120 days between payments, the account will be assigned to Treasury if there is a matching state debt, or to an OCA if there is no matching state debt.

MGA intends to continue to improve our collection activities. Last year was a good beginning, but we are still nine guaranty agencies away from number one.



*The mission of the Michigan Guaranty Agency is to provide Michigan residents with optimum access to postsecondary educational opportunities through low-interest, long-term educational loans.*



## **DEBT MANAGEMENT WORKSHOP FOR SCHOOLS**

Working in partnership with USA Group, we will bring you up-to-date on the regulations and problems associated with debt management and default prevention. Sites for the Debt Management Workshop are Tuesday, March 27 at the Holiday Inn Gateway Centre in Flint, and Wednesday, March 28 at Noto's Italian Restaurant and Banquet Center in Grand Rapids. The tentative agenda includes:

### **The Problem/The Rules**

Learn why default prevention is an important issue for borrowers, schools, and guarantors. This session includes an overview of statistics relevant to debt management and default prevention, as well as a regulatory overview.

### **Credit Cards/Focus Group Insight**

This session includes an overview of the problem of student credit card debt, along with recommendations as to ways schools can deal with this emerging issue. The insight gained from recommendations made by a nationwide series of focus groups composed of financial aid professionals, student borrowers, and parent borrowers will be highlighted.

### **Best Practices**

Follow the life cycle of a loan to learn about some of the most successful debt management/default prevention tools and initiatives in the industry. Sample forms and letters will be provided.

### **Group Exercise**

Apply what you learned throughout the day by working in groups to develop a plan of action to take back and implement at your institution.

### **Reports**

Each group will share a summary report of their activity, focusing on new ideas and breakthrough thinking.

Registration materials were mailed in early February. If you have questions or would like further information, please contact Deirdre Moore at ext. 19924, or via email, [moorede@state.mi.us](mailto:moorede@state.mi.us)

## **BACKDATING OF DEFERMENTS**

The Higher Education Amendments of 1998 eliminated the six-month backdating limitation on in-school deferments granted on or after July 1, 2000. As originally reported in the August 2000 issue of *Educational Loan Notes*, other types of deferments were still subject to the six-month limitation.

Revised policy in the Final Rules published in Part V of the Federal Register on November 1, 2000, removes the six-month limitation for almost all deferments granted on or after July 1, 2001, for any period of deferment that includes July 1, 2001, or a later date. **As clarification, we offer the following recap:**

New deferments granted on or after July 1, 2000, through June 30, 2001: Full-time and half-time in-school deferments may be backdated to the enrollment start date. Other types of deferments still are subject to the six-month limitation.

New deferments granted on or after July 1, 2001: Revised policy removes the six-month backdating restriction on all deferments, including unemployment deferments that are based on a borrower's evidence of eligibility for unemployment benefits and any subsequent unemployment deferments. These deferments may now be backdated to the date that the lender determines that the condition entitling the borrower to the deferment first existed. **However, an initial unemployment deferment that is based on the borrower's self-certification may begin no earlier than six months before the date that the lender receives the deferment request and required documentation, or the date that the borrower qualifies for the deferment, whichever is later.**

## **FY 1999 DRAFT COHORT DEFAULT RATES**

ED announced that it mailed the FY 1999 draft cohort default rates to schools via overnight mail on February 9, 2001. The FY 1999 draft cohort default rates represent those borrowers that have entered into repayment during FY 1999 and defaulted during FY 1999 or FY 2000.

### **TEN STEPS TO FINANCIAL FITNESS**

Mapping Your Future recently launched "Ten Steps to Financial Fitness," an interactive default prevention feature aimed at high school and college students to educate them about personal finance. Ten Steps to Financial Fitness takes students through a personal finance lesson and provides interactive calculators to help them develop a budget, plan for future income or debt, and balance their checkbooks. It is available via a new icon on the Mapping Your Future Web site at [www.mapping-your-future.org](http://www.mapping-your-future.org).

### **NSLDS AND LOAN STATUS CHANGES REPORTING**

Guarantors are required to validate the data passing between guarantors and lenders including data that lenders report for the National Student Loan Data System (NSLDS). Through program reviews, MGA is aware that a number of lenders and servicers are only updating their own records for student loan borrowers and are not submitting these changes to MGA for its records. We would like to remind those lenders that federal law requires that you notify MGA of loan status changes.

In addition, lenders and servicers are responsible for reporting to MGA each quarter NSLDS data on each Federal Family Education Loan Program (FFELP) loan that they hold. Again, this is a federal requirement. This information is critical to ensure that MGA is reporting accurate loan data to ED. If you are not reporting loan data to NSLDS and need assistance, please contact our Lender Services Unit at ext. 36076.

### **BORROWER STATEMENT OF ACCOUNT**

The Borrower Statement of Account has been revamped and is now referred to as the Borrower Debt Management Information Report.

Just like the Borrower Statement of Account, the Borrower Debt Management Information Report lists borrowers that will graduate within 60 to 90 days. The same type of information that you used to receive is also included in this new report; however, the following options now are available.

- You may specify a different contact person and address.
- You may request this report sorted in SSN order rather than alphabetic order.
- You may elect not to receive this report.

If you would like to change any of your options, please contact Bettie Mahnke at ext. 36074 or via email, [mahnkeb@state.mi.us](mailto:mahnkeb@state.mi.us).

### **REPAYMENT OF STUDENT LOAN PROVISIONS FOR KEY FEDERAL AGENCY STAFF DELAYED**

The Office of Personnel Management published final rules in the January 11, 2001, *Federal Register* that provides criteria for federal agencies to offer to repay all or part of an outstanding federally insured student loan for employees or prospective employees. The provisions, "when necessary," are aimed at helping to recruit or retain highly qualified professional, technical, or administrative personnel. The new rule implementing a previously passed law **was to take effect February 12, 2001, however it has been delayed until April 1, 2001.** This delay is a result of a White House memorandum requesting that all non-urgent rules be delayed to give new presidential appointees time to review any new or pending regulations. *Federal Registers* can be accessed from the National Archives and Records Administration Web site at [www.access.gpo.gov/nara/cfr/index.html](http://www.access.gpo.gov/nara/cfr/index.html).

### **COMMON MANUAL UPDATES**

The forty-ninth set of *Common Manual* updates was mailed to MGA clients in February. These updates represent a number of policy and wording changes, which were approved by the Governing Board on January 18, 2001.

- Loan Forgiveness Program for Teachers
- Closed School Loan Discharge
- Unpaid Refund Discharge
- Bankruptcy
- Loan Sales
- Additional Unsubsidized Loans
- Adjustments Involving the Master Promissory Note (deferred for further review)

(Continued on the next page.)

If you have any questions about this or past mailings of *Common Manual* changes or updates, please contact Linda Sienkiewicz, ext. 50077.

### **SCHOOL LIST UPDATES**

The following changes should be recorded by lenders on MGA's Active Michigan School List, dated January 24, 2001. If you have any questions regarding these changes, please contact our School Services Unit, ext. 36074.

#### **Contact Person Change**

**Lansing Community College (002278-00), Lansing**  
Change Sandra Putkamer, Student Loan Programs Coordinator, to Elizabeth Stallard, Student Loan Coordinator.

**Specs Howard School of Broadcast Arts (022378-00), Southfield**  
Add Kim Zwierzchowski, Financial Aid Officer.

**St. Clair County Community College (002310-00), Port Huron**  
Add Jo Cassar, Director of Financial Aid.

### **LENDER LIST UPDATES**

School personnel should record the following actions on the Participating Lender List, dated January 5, 2001. Please make the appropriate changes in all sections of the list as needed. If you have any questions regarding these updates, please contact the Lender Services Unit, ext. 36076.

#### **Institution Name Change**

**Old Kent, 806078**, changed their name to Old Kent Bank/Fifth Third Bank.

**Dearborn Churches Credit Union, 830525**, changed their name to United Churches Credit Union.

**Warrendale Community Credit Union, 832225**, changed their name to Community Choice Credit Union.

#### **Newly Participating Lender**

**Illinois Designated Account Purchase Program (IDAPP), 826351**, 1755 Lake Cook Road, Deerfield, IL 60015. Telephone: 847-831-8574.

**SunTrust Bank, 811353**, c/o UNIPAC, 3015 South Parker Road, Suite 400, Aurora, CO 80014-2904. Telephone: 303-696-3699.

#### **Address Change**

**Flint Area School Employees Credit Union, 829817**, 4411 Calkins Road, Flint, MI 48532. Phone: 800-369-2786.

**Alpha-Crystal Falls Community Federal Credit Union, 813128**, delete P.O. Box 180 and replace it with One Credit Union Way, Crystal Falls, MI 49920. Same telephone: 906-875-6686.

### **THE "ED" PIPELINE**

Following is a list of some of the most recent ED correspondence for lenders and schools.

[Dear Partner](#)  
[January 2001](#)  
[ANN-01-01](#)

This letter announces two new training workshops for 2001-2002 Delivery System/Application Processing and Packaging starting in February.

[Dear Partner](#)  
[January 2001](#)  
[GEN-01-02](#)

This letter explains ED's calculation of certain ratios that are used to determine whether institutions demonstrate financial responsibility under the regulations Subpart L of 34 CFR 668.

[Dear Partner](#)  
[January 2001](#)  
[GEN-01-01](#)

This letter provides information about recent changes and enhancement to the Student Aid Internet Gateway (SAIG).

[Dear Partner](#)  
[January 2001](#)  
[CB-01-01](#)

This letter provides information on Tentative 2001-2002 Funding Levels for the Campus-Based Programs.

### **"Q" AND "A"**

**Q. A borrower receives a loan in September 1994 and files for a Total and Permanent Disability after July 1, 2001, but before June 30, 2002. Is the borrower liable to repay their old September 1994 debt?**

**A.** The lender will file a disability default claim with MGA for review. If MGA denies the request for total and permanent disability, MGA will return the claim to the lender with an explanation of the basis for the denial and inform the borrower that the lender will resume collection on the loan.

*(Continued on the next page.)*

If MGA pays the disability claim, MGA will assign the loan to ED and the lender will notify the borrower that the loan will be assigned to ED for determination of eligibility for a total and permanent disability discharge. If ED determines that the certification and information provided by the borrower does not meet the criteria for a total and permanent disability discharge, ED will notify the borrower that the application for a disability discharge has been denied and that the loan is due and payable under the terms of the promissory note.

If ED makes an initial determination that the borrower is totally and permanently disabled, ED will notify the borrower that the loan is conditionally discharged and that the conditional discharge period will last for up to three years after the date the borrower became totally and permanently disabled, as certified under 682.402.

ED will suspend collection activity on the loan from the date of the initial determination of total and permanent disability until the end of the conditional period. If the borrower satisfies the criteria for a total and permanent disability discharge during and at the end of the conditional discharge period, the balance of the loan will be discharged and any payments received after the date the borrower became totally and permanently disabled as certified under 682.402 will be returned to the borrower.

A borrower will satisfy the criteria for a discharge of a loan based on a total and permanent disability if, during and at the end of the three-year period:

- (a) The borrower's annual earnings from employment do not exceed 100 percent of the poverty line for a family of two, as determined in accordance with the Community Service Block Grant Act, and
- (b) The borrower does not receive a new loan under the Perkins, FFELP, or the Federal Direct Loan Program.

**Q. A borrower is deceased as of July 25, 2001, and the lender has not received a death certificate. What documentation is required to discharge the loan?**

- A. Effective July 1, 2001, if a borrower dies or the student for whom a parent received a PLUS loan dies, the obligation of the borrower and any endorser to make any further payments on the loan is discharged. The lender must obtain an original or certified copy of the death certificate from an official source, a parent, or representative of the borrower. Any other documentation of death may be used to support a discharge only under exceptional circumstances, on a case-by-case basis, and only with the approval of the chief executive officer of the guaranty agency.



# Calendar of Upcoming Events

**February 2001**

- 27 Michigan Higher Education Assistance Authority (MHEAA)  
and Michigan Higher Education Student Loan Authority  
(MHESLA) Meetings  
Lansing, MI

**March 2001**

- 27 Debt Management Workshop  
Holiday Inn Gateway Centre  
Flint, MI
- 28 Debt Management Workshop  
Noto's Italian Restaurant and Banquet Center  
Grand Rapids, MI

**March 2001 (continued)**

- 31 Deadline - Audits for Lenders with FFELP loans  
totaling more than \$5 million - Fiscal Year Ending  
September 30, 2000

**April 2001**

- 25 -27 MBA Operations & Technology Conference  
Bavarian Inn  
Frankenmuth

If you need further information or wish to submit items for the calendar, please contact Jim Peterson, Editor, at ext. 36944, or via e-mail at [petersonj@state.mi.us](mailto:petersonj@state.mi.us).

# LOAN NOTES

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